

Comments to NCUA on Corporate CUs

The corporate credit unions should be regulated under part 704 of the NCUA rules and regulations in the following areas.

- Payment systems should be separated and done separately from the rest of the system. This should be done through a CUSO.
- Liquidity should be handled by the corporate through the CLF (Central Liquidity Facility). This would insure good oversight and facilitate quick intervention in situations like the one we just experienced.
- The expanded authority for investments should be eliminated. Investments should also be handled through a CUSO whose operations are separate from the corporate to insulate it from investment failure such as we have just experienced. The CUSO should be separately capitalized. With this in place, the two tiered wholesale structure would not be beneficial any more and should be eliminated.
- Core capital should be measured with both retained earnings and special issuance of stock. This stock should be risk capital. The stock should be issued as a single par value of stock with one vote for the one share that each natural person credit union could own. However, that one share should have both the maximum and minimum amount be the same. Only one voting share could be owned by any natural credit union and proxy voting would be prohibited. The maximum and minimum amount should be significant. A par value of \$250,000.00 would be an example. It should be non-transferable and only one corporate could be used where this stock is kept by the natural person credit union. This would be decided by geographical region just as the Federal Reserve Banks are now. A corporate should have no less than a 12 to 1 leverage ratio.
- Permissible investments should be almost as strictly limited for the corporate as it is for the natural person credit union. The CUSO of the credit union could have the expanded investment power since it is a separate entity from the corporate credit union.
- Such questions of ratings for investments, stress modeling, concentration, and independent evaluations of risk should be addressed in the CUSO section of the regulation governing the corporate investment CUSO. They should be more conservative than they are now. However, the CUSO should be capitalized and run as a separate entity with a separate board of directors. If the investment CUSO failed, it would not have an impact on the rest of the Corporate. This means that the NCUSIF insurance would only cover payment systems of the corporate credit union and the core liquidity function that would be tied to the CLF.
- ALM should be strictly modeled and evaluated through the CLF. This would be the arm of the NCUA that would have to stand in if the credit

union got into liquidity trouble. Such modeling as NEV, income simulation, GAP and further stress testing should be the minimum requirements.

- Standards should be established for corporate directors. These same standards should apply to the CUSO boards as well. To help monitor the governance, an official from the NCUA should attend all board meetings as an ex-officio, non voting member. This would insure that NCUA constantly monitored what was going on in the corporate.
- There should be both external experts and representatives from the natural person credit unions on the board of directors. Both types would have to meet certain requirements to serve.
- The corporate system should be divided up into geographical regions much like the Federal Reserve is. Only one corporate could serve natural person credit unions in that region. This could mean the merger and divesting of credit unions who are now served by a number of different corporates all over the country.
- External, expert directors should be compensated while the representatives from natural person credit unions should be volunteers.
- Term limits should be required for both external, expert board members and natural person credit union representatives.
- The general strategy of all of this is to break the other parts of the business off into a CUSO for investments, marketing, ALM modeling, payment cards, credit cards, debit cards, etc. to be run as stand alone businesses that are not insured by the NCUSIF.
- Only the core functions of payment systems, liquidity, and lending should be capitalized by the member credit unions and have NCUSIF insurance.
- In order to preserve the cooperative nature of the core business, it should be capitalized with one voting share of that has the same maximum and minimum par value requirement. Even the small credit unions would be required to capitalize the core corporate credit union with this core amount. This might require a loan that would be paid back over up to a ten year period. The amount for each credit union should be about \$250,000.000.
- There should probably be about seven corporate credit unions in the United States with geographical boundaries defining which credit unions could belong to which corporate credit union based on geographical location.